

1997-98 SESSION
COMMITTEE HEARING
RECORDS

Committee Name:

Joint Committee on
Finance (JC-Fi)

Sample:

Record of Comm. Proceedings ... RCP

- 05hrAC-EdR_RCP_pt01a
- 05hrAC-EdR_RCP_pt01b
- 05hrAC-EdR_RCP_pt02

➤ Appointments ... Appt

➤ **

➤ Clearinghouse Rules ... CRule

➤ **

➤ Committee Hearings ... CH

➤ **

➤ Committee Reports ... CR

➤ **

➤ Executive Sessions ... ES

➤ **

➤ Hearing Records ... HR

➤ **

➤ Miscellaneous ... Misc

➤ 97hrJC-Fi_Misc_pt96b_LFB

➤ Record of Comm. Proceedings ... RCP

➤ **

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

School District Revenue Limits - Maximum Allowable Revenue Increase (DPI)

[LFB Summary: Page 461, #2]

CURRENT LAW

For purposes of school district revenue limits, the state restricts the annual increase in a school district's per pupil revenue derived from general school aids and property taxes. The allowable increase in revenue per pupil cannot exceed a flat dollar amount of \$206 for 1996-97 and each year thereafter.

General school aids consist of the following, as they apply to a particular school district: (a) equalization aid; (b) integration (Chapter 220) aid; and (c) special adjustment (hold harmless) aid. In total these aids represent nearly 90% of the funds provided as state aid to school districts.

GOVERNOR

No provision.

DISCUSSION POINTS

1. Prior to 1995-96, the allowable per pupil revenue increase could not exceed a flat dollar amount or the rate of inflation, whichever resulted in the higher revenue amount for the district. In 1993-94, the limit was based on \$190 per pupil or an inflation rate of 3.2%. Beginning in 1994-95, the \$190 per pupil amount was adjusted by the rate of inflation, so that the limit was based on \$194.37 per pupil or an inflation rate of 2.3%. Under 1995 Act 27 (the

1995-97 budget) the maximum allowable per pupil revenue increase was set at \$200 in 1995-96 and \$206 in 1996-97 and each year thereafter. Under Act 27, the flat dollar amount is no longer adjusted for inflation and a school district no longer has the option to use the inflation rate to determine its maximum allowable increase.

2. There are three main arguments offered by the proponents of a flat dollar amount:

- Limiting all school districts to the same per pupil increase in allowable revenues will, over time, reduce the disparity in revenue per pupil among districts in the state on a percentage basis. A \$206 increase represents a greater increase as a percent of the base for a district with lower allowable revenue per pupil than for a district with higher revenues per pupil.

- A flat dollar amount, rather than a higher adjustment based on an inflation option, for districts with higher-than-average revenues per pupil results in more property tax relief for taxpayers in those communities.

- The cost for the state to achieve the goal of two-thirds funding of partial school revenues, which began in 1996-97, is lower than compared to indexing the flat dollar amount.

3. Under current law, it is estimated that the \$206 flat amount would provide allowable per pupil revenue increases of 3.0% or greater to approximately 77% of school districts in 1997-98 and approximately 69% in 1998-99. The following table shows the number of school districts by percentage increase in allowable revenues during fiscal years 1996-97, 1997-98 and 1998-99.

**Number of School Districts by Percentage Increase of
the Per Pupil Allowable Revenues with the Current \$206 Amount**

<u>Percentage Increase to Allowable Revenues</u>	<u>Actual 1996-97</u>		<u>Estimated SB 77</u>			
			<u>1997-98</u>		<u>1998-99</u>	
Greater than or Equal to 4.0%	9	2.1%	1	0.2%	1	0.2%
Less than 4.0%, but Greater than 3.0%	346	81.2	327	76.8	294	69.1
Less than 3.0%, but Greater than 2.0%	68	16.0	95	22.3	127	29.8
Less than 2.0%	<u>3</u>	<u>0.7</u>	<u>3</u>	<u>0.7</u>	<u>4</u>	<u>0.9</u>
Total	426	100.0%	426	100.0%	426	100.0%

4. The administration indicates that it is concerned about putting into place an automatic growth provision for the flat dollar amount. It is argued that the Legislature could make adjustments to the amount in future years.

5. Opponents of the \$206 flat dollar per pupil allowable increase argue that certain expenditure categories (such as special education, staff contracts and school building maintenance) require more than an inflationary adjustment. Furthermore, they are concerned that unless the flat dollar amount is adjusted, \$206 per pupil will represent less of a percentage increase in future years.

In addition, it is argued that if the flat dollar amount is increased, it would help narrow the gap more quickly, in percentage terms, between low per pupil revenue districts and high per pupil revenue districts. Finally, opponents of the flat amount indicate that it may be more difficult for future Legislatures to maintain revenue limits, if school districts have inadequate resources because the annual per pupil adjustment is set at too low a level.

6. The inflation rate that was used for the revenue limit calculation was based on the rate of change in the all-urban Consumer Price Index (CPI-U) between May of the preceding calendar year and May of the current calendar year. The percentage change in the CPI-U has remained relatively low the last two years: (a) between May of 1994 and May of 1995, the change was 3.2%; and (b) between May of 1995 and May of 1996, the change was 2.8%.

7. The Committee could consider adjusting the maximum allowable revenue increases by indexing the flat dollar amount to the all-urban Consumer Price Index. Indexing to inflation would require state GPR support to increase by an estimated \$2.8 million in 1997-98 and by \$6.3 million in 1998-99 to achieve the goal of funding two-thirds of partial school revenues. In a letter to the Co-Chairs of JFC dated April 24, 1997, the Senate Education Committee recommended that this type of indexing provision be included in the budget.

8. Previously, concerns were raised regarding the month used to determine the inflation rate under the revenue limits. It has been argued that basing the rate on the month of May created budget planning problems for school districts because the allowable rate of increase was not known until June and school districts generally develop their budgets for the next school year beginning in February or March. Although CPI-U figures will vary from month to month, using a March over March comparison would allow for an earlier calculation of any inflation adjustment.

9. On April 29, 1997, the Legislative Council Special Committee on the School Aid Formula voted to recommend that the \$206 per pupil revenue increase be used in any year, unless the CPI-U multiplied by the statewide average base revenue per pupil exceeds \$206, in which case the inflation-adjusted number would be used. The \$206 would be the minimum in any given year unless the CPI-U multiplied by the statewide average base revenue per pupil yielded

a larger number. If so, the larger number would be used on a uniform statewide basis for all school districts.

It is estimated that the statewide average base revenue per pupil would be \$6,428 for 1997-98 and \$6,648 for 1998-99. If an estimated rate of inflation of 2.8% is applied to these projected base revenue amounts, per pupil allowable revenue increases of \$180 in 1997-98 and \$186 in 1998-99 would result; therefore, the \$206 per pupil increase would apply during the 1997-99 biennium. As an example, the rate of inflation would have to exceed 3.1% for the per pupil allowable increase to exceed \$206 in 1998-99.

ALTERNATIVES TO BASE

1. **FAIL** Adopt an annual inflation adjustment to the flat dollar amount of \$206. As a result, it is estimated that the \$206 would increase to \$211 per pupil in 1997-98 and to \$217 per pupil in 1998-99. This alternative would increase the estimated cost to provide two-thirds funding by \$2,800,000 in 1997-98 and \$6,300,000 in 1998-99 compared to the amounts provided in SB 77 for equalization aids. Provide that the rate of inflation would be based on the change in CPI-U for the month of March in that calendar year compared to the prior March.

Alternative 1	GPR
1997-99 FUNDING (Change to Base)	\$9,100,000
[Change to Bill]	\$9,100,000

2. **FAIL** Adopt the Legislative Council Special Committee's recommendation that the \$206 per pupil revenue increase be used in any year unless the CPI-U multiplied by the statewide average base revenue per pupil exceeds \$206, in which case the inflation-adjusted number would be used. The \$206 would be the minimum in any given year unless the CPI-U multiplied by the statewide average base revenue per pupil yielded a larger number. It is estimated that this alternative would have no fiscal effect during the 1997-99 biennium. Provide that the rate of inflation would be based on the change in CPI-U for the month of March in that calendar year compared to the prior March.

3. Maintain current law. As a result, the flat dollar amount of \$206 would be used to determine a school district's maximum allowable increase each year.

Prepared by: Bob Soldner

MO# Alt #2

JENSEN	Y	N	A	BURKE	Y	N	A
OURADA	Y	N	A	DECKER	Y	N	A
HARSDORF	Y	N	A	GEORGE	Y	N	A
ALBERS	Y	N	A	JAUCH	Y	N	A
GARD	Y	N	A	WINEKE	Y	N	A
KAUFERT	Y	N	A	SHIBILSKI	Y	N	A
LINTON	Y	N	A	COWLES	Y	N	A
COGGS	Y	N	A	PANZER	Y	N	A

AYE 8 NO 8 ABS

PAPER # 659

MO# A14 #1

JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

² BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
¹ WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A

AYE 8 NO 8 ABS

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

School District Revenue Limits -- Carryover of Unused Revenue Authority (DPI)

[LFB Summary: Page 461, #2]

CURRENT LAW

If a school district's revenues in any school year are less than the maximum allowed in that year, the revenue limit otherwise applicable to the district in the subsequent school year is increased by an amount equal to 75% of the difference between the district's actual revenues and the maximum amount allowed.

GOVERNOR

No provision.

DISCUSSION POINTS

1. Based on information from the Department of Public Instruction relating to the calculation of revenue limits in 1996-97, 174 out of the state's 426 school districts carried over approximately \$8.6 million of unused revenue authority from 1995-96 into 1996-97. Based on the same data, it is estimated that 127 out of the state's 426 school districts would carry over approximately \$6.3 million of unused revenue authority from 1996-97 into 1997-98. The following table shows the number of school districts that carried over unused revenue authority by certain intervals of carryover amounts for 1996-97 and 1997-98. As shown in the table, 97 of the 174, or 56% of the 174, school districts carried over less than \$10,000 of unused revenue

authority in 1996-97 and it is estimated that 87 of the 127, or 69% of the 127, school districts would carry over less than \$10,000 of unused revenue authority in 1997-98.

**Distribution of School Districts by Amount of 75% Carryover
Allowed for Purposes of Actual 1996-97 and Estimated 1997-98 Revenue Limits**

<u>Carryover Amounts</u>	<u>Number of Districts</u>	
	<u>1996-97</u>	<u>1997-98</u>
Under \$999	43	42
\$1,000 to 9,999	54	45
\$10,000 to 24,999	27	13
\$25,000 to 49,999	11	9
\$50,000 to 99,999	18	6
\$100,000 to 199,999	7	4
\$200,000 to 299,999	6	2
\$300,000 to 499,999	6	4
\$500,000 and over	<u>2</u>	<u>2</u>
Total	174	127

2. The current 75% carryover provision was established in 1995 Act 27 (the 1995-97 budget), beginning with the 1995-96 revenue limit. Prior to that, there was no carryover allowed under revenue limits. The 75% carryover provision was created to reduce the incentive that school districts would otherwise have to levy to the allowable maximum. Without a carryover provision, a school district's revenue limit for the following year would be lower, if the school district did not set its levy high enough to generate the maximum allowable revenues under the revenue limits. As a result, school districts would have an incentive to levy to the maximum amount allowed out of concern for their future revenue limits, even if they did not need the additional revenues in the present.

3. On April 25, 1997, the Legislative Council Special Committee on the School Aid Formula voted to recommend that school districts be permitted to carry over 100% of the unused revenue authority from one year to the next. It was argued that this proposed 100% carryover provision would allow a school district to levy at less than the maximum allowable in a given year, without concern for its future revenue limit calculations. However, the current 75% carryover provision already provides a significant adjustment to school districts. In addition, it is unclear whether a school district that did not need to fully utilize its revenue base in one year, would require 100% of this difference in the next year.

4. The Committee could allow school districts to carry over 100% of the unused revenue authority. It is estimated that if every district took full advantage of the proposed adjustment, the districts would collectively raise additional revenue of approximately \$2.1 million in 1997-98 and \$1.0 million in 1998-99. Assuming that 80% of these carryover amounts would be utilized in the following year, the state's cost of this increase, under the 66.7% goal of partial school revenues, would be approximately \$1.1 million in 1997-98 and \$0.5 million in 1998-99.

ALTERNATIVES TO BASE

1. ^{FAIL} Allow school districts to carry over 100% of the prior year's unused maximum revenue authority. If selected, it is estimated that this provision would cost approximately \$1,100,000 in 1997-98 and \$500,000 in 1998-99 for additional equalization aids.

<u>Alternative 1</u>	<u>GPR</u>
1997-99 FUNDING (Change to Base)	\$1,600,000
[Change to Bill]	\$1,600,000]

2. ^{Default} Maintain current law.

Prepared by: Bob Sold

MO# A14 #1

JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A

AYE 7 NO 9 ABS

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

School District Revenue Limits -- Low Revenue Adjustment (DPI)

[LFB Summary: Page 467, #11]

CURRENT LAW

Under current law, any school district with a "base revenue" per pupil for the prior school year that was less than a "revenue ceiling" of \$5,300 in 1995-96 and \$5,600 in 1996-97 and each year thereafter is allowed to increase their revenues up to the ceiling. "Base revenue" is determined by: (a) calculating the sum of the district's prior year general school aids and the property tax levy (excluding debt service levies exempted from the limit); (b) dividing the sum under (a) by the average of the district's September membership for the three prior school years; and (c) adding \$200 to the result under (b) for 1995-96, and adding \$206 to the result for 1996-97 and thereafter. If a school district has resident pupils who were solely enrolled in a county handicapped children's education board program, costs and pupils related to that program would be factored into the district's base revenue calculation.

GOVERNOR

Increase the "revenue ceiling" that applies to the low-revenue adjustment to school district revenue limits from its current level of \$5,600 per pupil in 1996-97 to \$5,800 per pupil in 1997-98 and \$6,000 per pupil in 1998-99 and each year thereafter.

DISCUSSION POINTS

1. The current law low-revenue adjustment does not provide a full exemption from the revenue limit, but rather an eligible school district is permitted to increase its per pupil revenues up to a specific amount. It is estimated that 10 school districts would be below the proposed \$5,800 revenue ceiling in 1997-98 and five districts would be below the proposed \$6,000 ceiling in 1998-99.

2. If districts take advantage of the proposed adjustment, the cost to achieve 66.7% funding of partial revenues in the 1997-99 biennium would increase. It is difficult to project that cost, because use of the adjustment would be determined locally. However, it is estimated that the proposed increases to the low-revenue adjustment would account for \$300,000 GPR of the annual funding in SB 77 for equalization aids to meet the 66.7% funding goal.

3. Districts with the lowest revenues per pupil already benefit by the flat dollar adjustment under the current revenue limits. An increase in revenue of \$206 per pupil would generate allowable per pupil growth of between 3.7% and 4.6% for these districts in 1997-98. The proposed adjustment could potentially add to that growth. While for most districts the additional revenue authority would be relatively modest (less than an additional 1.5% increase), the allowable increase would be significantly higher for a few districts at the lowest level (up to an additional 21.2%). However, a school district would be under no obligation to raise its revenue to the ceiling.

4. According to the administration, the Governor's proposal is intended to reduce the disparity in revenue per pupil among school districts. However, it could be argued that an adjustment provided to less than 1.2% of the districts in 1998-99 would not have a significant impact on revenue disparities across the state.

5. The bill would not adjust the revenue ceiling after the 1998-99 school year. It would remain at \$6,000 per pupil. According to DOA, the Governor did not wish to build in automatic adjustments to the ceiling, but would prefer to make the determination every two years if adjustments are necessary. In addition, it is not known to what extent school districts would use the adjustment in the next biennium.

6. On April 25, 1997, the Legislative Council Special Committee on the School Aid Formula voted to recommend that the revenue ceiling be increased to \$5,900 in 1997-98 and to \$6,100 in 1998-99 and each year thereafter. This would expand the scope of the adjustment; a revenue ceiling of \$5,900 in 1997-98 would affect 43 school districts, or about 10% of the state's total number. It is estimated that this proposal would require \$1.3 million GPR of annual funding over the base to provide 66.7% funding of partial school revenues, which would represent an increase of \$1.0 million GPR annually to the bill.

7. Those opposed to increasing the low-revenue adjustment would argue that while it may allow school districts with the lowest per pupil revenues to expand educational opportunities, the anticipated amount of property tax relief in these districts could be dissipated. Furthermore, they contend that even without the low-revenue adjustment, current law already allows school districts to exceed the limit through referendum and that using this option would ensure local electorate support of the district's decision to spend or tax at higher levels.

ALTERNATIVES TO BASE

1. Approve the Governor's recommendation to increase the revenue ceiling that applies to the low revenue adjustment to \$5,800 per pupil in 1997-98 and \$6,000 per pupil in 1998-99. Provide \$300,000 annually for equalization aids to attain 66.7% funding of partial school revenues.

<u>Alternative 1</u>	<u>GPR</u>
1997-99 FUNDING (Change to Base)	\$600,000
[Change to Bill]	\$0]

2. Modify the Governor's recommendation by increasing the revenue ceiling to \$5,900 in 1997-98 and \$6,100 in 1998-99. Provide \$1.3 million annually for equalization aids to attain 66.7% funding of partial school revenues, which would represent an increase of \$1.0 million annually to the bill.

<u>Alternative 2</u>	<u>GPR</u>
1997-99 FUNDING (Change to Base)	\$2,600,000
[Change to Bill]	\$2,000,000]

3. Maintain current law and delete \$300,000 annually for equalization aids associated with 66.7% funding of partial school revenues.

<u>Alternative 3</u>	<u>GPR</u>
1997-99 FUNDING (Change to Base)	\$0
[Change to Bill]	- \$600,000]

Prepared by: Bob Soldner

Public Instruction (Paper #661)

MO# Alt #2

JENSEN	✓	N	A	BURKE	✓	N	A
ZOURADA	✓	N	A	DECKER	✓	N	A
HARSDORF	✓	N	A	GEORGE	✓	N	A
ALBERS	✓	N	A	JAUCH	✓	N	A
GARD	✓	N	A	WINEKE	✓	N	A
KAUFERT	✓	N	A	SHIBILSKI	✓	N	A
LINTON	✓	N	A	COWLES	✓	N	A
COGGS	✓	N	A	PANZER	✓	N	A

AYE 15 NO 1 ABS Page 3

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

School District Revenue Limits -- Transfer of Service (DPI)

[LFB Summary: Page 461, #2]

CURRENT LAW

Adjustments involving increases and decreases to school district revenue limits are allowed for transfers of service responsibilities between a school district and another governmental unit (including a school district). The determination and approval of these adjustments is made by DPI.

Since 1995-96, DPI has been required to ensure that if responsibility for providing a service is transferred from one school district to another school district within the state, the decrease in the former district's limit must be equal to or greater than the increase in the latter district's limit.

GOVERNOR

No provision.

DISCUSSION POINTS

1. The current limitation on school district revenue limits for transfer of service responsibility between school districts was established in 1995 Act 27, beginning with the 1995-96 revenue limit. The provision addressed concerns that transfers of service responsibility in prior years had led to increases in the revenue limits of the receiving district, without a

corresponding decrease in the sending district. Because this practice, if continued, would increase the cost of the state's goal of funding 66.7% of partial school revenues, the Act 27 provision established the requirement for a dollar-for-dollar offset for transfer of service responsibility between school districts.

2. On April 25, 1997, the Legislative Council Special Committee on the School Aid Formula voted to recommend the repeal of the transfer of services provision related to transfers between school districts. Advocates of this change indicated that in many cases the sending district would have to continue their program even after the transfer, and therefore would not realize significant savings. This change would allow a school district's reduction to be based on the actual amount of reduced cost as a result of no longer providing the service rather than on the increased cost experienced by the district receiving the transfer of service. DPI would have the authority to determine the level of adjustments for transfers between school districts.

3. Opponents of this change argue that it is only the Act 27 provision that has forced downward adjustments to the sending districts revenue limits. They indicate that if the Act 27 provision would be repealed, the state would return to the situation where increases to revenue limits were routine and decreases a rarity.

4. 1997 Senate Bill 120 would delete the limitation on revenue limits for district-to-district transfers. On May 7, 1997, the Senate Committee on Education recommended SB 120 for passage on a vote of 7 ayes, 0 noes. SB 120 was referred to the Joint Committee on Finance on May 20, 1997. DPI estimates that if these provisions had been in effect for purposes of the 1996-97 revenue limit calculations, and if the total statewide requests for increases were not offset with any reductions, the increased costs to the state would have been \$1.3 million GPR.

5. The Committee could delete this statutory provision. DPI does not collect data on the actual decreased costs of transfers of service; therefore, it is difficult to estimate what the statewide change in revenue limits would be as a result of deleting this provision. Transfer of service responsibility between school districts varies significantly from year to year, and reductions could offset a portion of this cost. However, it is assumed that the net statewide effect would be an increase in maximum revenues under the revenue limits compared to current law. It is estimated that this modification would collectively raise maximum revenues by approximately \$1.5 million in each year, although this estimate should be considered speculative. The state's cost of this increase, under the 66.7% goal of partial school revenues, would be approximately \$1.0 million GPR annually.

ALTERNATIVES TO BASE

① ^{FAIL} Delete the provision which requires DPI to ensure that if responsibility for providing a service is transferred from one school district to another school district within the state, the decrease in the former district's limit must be equal to or greater than the increase in

the latter district's limit. It is estimated that this provision would cost \$1.0 million annually for equalization aids.

<u>Alternative 1</u>	<u>GPR</u>
1997-99 FUNDING (Change to Base)	\$2,000,000
[Change to Bill]	\$2,000,000

2. Maintain current law.

Default

Prepared by: Bob Soldner

MO# A17 #1

JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

² BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A

AYE 8 NO 8 ABS

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

School District Debt Service Costs (DPI)

[LFB Summary: Page 461, #2]

CURRENT LAW

Property tax levies for the long-term debt service payments of school districts are included among the revenues which the state will support at the two-thirds funding level. Therefore, the state's funding obligation will be partially influenced by the degree to which school districts are successful in passing borrowing referenda. However, debt service represents a relatively small share (approximately 5-6%) of the total amount of K-12 revenue included in the two-thirds funding calculation.

School boards must approve a resolution supporting inclusion in the school district budget an amount which exceeds the revenue limit. The resolution must specify whether the proposed excess revenue is for a recurring or nonrecurring purpose, or both. If the resolution is approved by a majority of those voting on the question, the school board can exceed the revenue limit by the amount approved. These referenda could approve debt, recurring or nonrecurring operating costs.

All debt service costs are shared (or aidable) costs under the general equalization aid formula. Therefore, the decision of school districts to incur new debt does have an impact on the distribution of general school aid.

GOVERNOR

No provision.

DISCUSSION POINTS

1. In 1989 Act 31 (the 1989-91 budget), the limit on shared debt service costs under the equalization aid formula was increased from \$90 per member to \$110 per member, effective with the 1991-92 general aid distribution. Based on 1988-89 school district budgets, statewide debt service costs totaled \$95.7 million, with an average of \$128 per member. Approximately 40% of the school districts had debt service costs below \$90 per member. In 1989 Act 336, effective on May 11, 1990, the \$90 per member limit was eliminated before the increase to \$110 went into effect. DPI staff indicate that one reason for the elimination of the \$90 debt ceiling was to remove the disincentive for school districts to maintain and improve district buildings.

2. The exclusion of some portion of debt service costs from eligibility for equalization aid was designed to discourage the construction of new buildings at a time of declining enrollments during the late 1970s and 1980s. Although public school enrollments have increased over the last several years, it could be argued that a limit on debt service costs has merit. Some contend that the state should not provide aid for any building costs since such costs vary significantly from district to district and are subject to more local discretion than instructional costs.

3. On the other hand, the existence of any nonaidable cost is contrary to the equalization goals of the general school aid formula. To the extent that a school district has costs that are not eligible for aid, its fiscal capacity is not totally equalized because it must pay the nonshared portion entirely through its own local tax base. Districts with higher-than-average property values per pupil are in a better position to finance nonshared costs that must be funded in full by the property tax, because they can generate a given amount of revenue at a lower mill rate than districts with lower-than-average property values per pupil. In addition to the disequalizing effect of a debt ceiling, it has been argued that a ceiling is arbitrary and discriminatory since the level of nonshared costs is affected by membership as well as the overall level of debt service costs.

4. Based on estimated 1996-97 equalization aid levels, the state currently supports approximately 60% of net debt service costs, or \$146.0 million of a \$243.4 million total. The statewide average net debt service cost per member is \$287. Approximately 14% of the school districts in the state have debt service costs below \$90 per member; whereas, 53% of the districts are below \$300 per member. It is estimated, based on school district budgets for the 1996-97 school year, that debt service costs will increase to \$307.9 million (26.5% increase) statewide, with an average of \$358 per member (24.7% increase). Based on the 1996-97 budgets, approximately 38% of the school districts in the state would have debt service costs below \$300 per member.

5. Prior to the repeal of the \$90 per member debt service ceiling, several proposals were made to increase the ceiling. Such proposals were not adopted by the Legislature, in part, because of the redistributive impact on general aids caused by sharing in additional debt service

costs. In general, all other factors being equal, creating a debt ceiling shifts state aid from districts that exceed the sharing limit to districts that do not exceed the limit. There is one major exception to this general rule: for school districts with higher-than-average per member shared costs and property valuations that receive equalization aid, but incur negative aid on every additional dollar of shared cost, decreasing shared costs by creating a debt ceiling acts to increase their equalization aid (through decreasing negative aid). There are approximately 40 school districts which would be in this position.

6. If a debt ceiling was created at \$300 per member in 1997-98, there would be a shift of approximately \$14.5 million in general school aids with 224 districts benefiting, 165 districts losing and 37 districts with no change, based on the level of funding recommended for general aids in SB 77. Under this modification, net debt service costs would be reduced from an estimated \$307.9 million to \$202.8 million, or a 34.1% reduction.

7. An alternative to imposing a per member debt ceiling would be to impose an aggregate statewide limit on the amount of net debt service costs that the state will recognize for purposes of calculating shared costs and partial revenues. Under this option, a statewide limit of \$340 million could be established on these costs for purposes of calculating shared costs in 1998-99, which would represent a ceiling of approximately 110% of estimated net debt service costs projected for 1997-98. If these costs would exceed this flat dollar amount, net debt service costs for each school district would be prorated for purposes of calculating shared costs under the equalization formula. The limit would be set at 110% of the 1997-98 level, to allow for some growth in this area, before imposing a ceiling in 1998-99.

In estimating the cost of meeting the state goal of funding 66.7% of partial school revenues, a somewhat higher limit could be imposed on the debt levy, which is a part of partial revenues. This fixed dollar amount would differ from the limit on net debt service costs for shared costs, because shared costs are from the prior year, while the debt levy is a current year number. As a result, a limit of \$385 million on the debt levy could be established in 1998-99, which would represent a ceiling set at approximately 110% of the estimated debt levy in 1997-98.

The effect of this alternative would be that the state would establish a cap on the total amount of debt service that it is willing to support. If in aggregate, school districts exceed this limit, then all school districts that have debt service would see a proportional reduction in state support for their debt levy. As an example, if total net debt service included in shared costs increased to \$350 million, then net debt service costs for each school district would be multiplied by 0.971 ($\$340 \text{ million} \div \350 million) in determining shared costs under the equalization formula. Similarly, in estimating partial school revenues for purposes of determining the state's cost of meeting the goal of 66.7% of partial revenues, if the debt levy increased to \$400 million, a debt levy number of \$385 million would be used, rather than the actual debt levy amount of \$400 million.

Because these limits would be set at flat dollar amounts consistent with the projected levels of net debt service costs and the debt levy for 1998-99, this alternative would not have a fiscal effect in the 1997-99 biennium. However, if school district borrowing costs continue to rise in the future, these ceilings would limit the amount recognized for purposes of shared costs and would cap the state's obligation relating to the debt levy under the goal of funding 66.7% of partial school revenues.

One could argue that this alternative would represent a failure by the state to meet the 66.7% funding commitment. In addition, by imposing a ceiling on shared costs, aid for one school district could be affected by borrowing decisions of other school districts, as their net debt service costs could be subject to a prorate for purposes of calculating shared costs.

8. It could be argued that certain school districts have not had the opportunity, nor the incentive, to seek impartial advice on low-cost building designs and other school construction options in order to build more useable and economical facilities. To respond to this concern, the State Superintendent of Public Instruction could be directed to review and approve school district construction plans. The State Superintendent could be required to promulgate administrative rules defining the review and approval process, including criteria to be used. The Committee could specify that the criteria would include, but not be limited to, building costs per square foot by geographic region and a square footage per pupil. As part of this alternative, the Committee could provide \$52,600 GPR in 1997-98 and \$64,600 GPR in 1998-99 and 1.0 GPR position beginning in 1997-98 for DPI to review the school district plans.

9. Discussions concerning the increases in school district debt levies and the increased costs to the state under the goal of 66.7% of partial school revenues, have led some to argue that referenda to exceed the revenue limits should receive the support of more than a simple majority of a school board. Under current law, a simple majority vote of the school board is sufficient to advance the board's resolution to a referendum to exceed the revenue limits. To respond to this concern, the Committee could require that a super majority, defined as two-thirds of the school board, or a unanimous vote of the school board, would be required to approve a resolution to exceed the revenue limits.

ALTERNATIVES TO BASE

Adopt one or more of the following:

1. Create a ceiling of \$300 per member on the amount of debt service which is considered aidable.
2. Establish a statewide limit of \$340 million on the amount of net debt service costs that the state would recognize for purposes of calculating shared costs under the equalization aid formula, effective in 1998-99. Provide that if statewide net debt service costs would exceed \$340

million, net debt service costs for each school district would be prorated in determining shared costs. Specify that in determining partial school revenues, the state would use the lesser of the statewide debt levy by school districts, or \$385 million, effective in 1998-99.

3. Require the State Superintendent of Public Instruction to review and approve school district construction plans. Direct the State Superintendent to promulgate administrative rules defining the review and approval process, including criteria to be used. Specify that the criteria would include, but not be limited to, building costs per square foot by geographic region and a square footage per pupil. Provide \$52,600 in 1997-98 and \$64,600 in 1998-99 and 1.0 position beginning in 1997-98 for DPI to review and approve the school district plans.

<u>Alternative 3</u>	<u>GPR</u>
1997-99 FUNDING (Change to Base)	\$117,200
[Change to Bill]	\$117,200]
1998-99 POSITIONS (Change to Base)	1.00
[Change to Bill]	1.00]

4. Require that school boards would need more than a majority vote to approve a resolution to exceed the revenue limits for debt, recurring or nonrecurring operating costs. Specify one of the following votes:

- a. a super majority, defined as two-thirds of the school board; or
 - b. a unanimous vote of the school board.
5. Take no action.

*See #3237
motion
withdrawn*

Prepared by: Bob Soldner

MO# _____

JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A

AYE _____ NO _____ ABS _____

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Student Achievement Guarantee in Education (DPI)

CURRENT LAW

A total of \$4,591,000 GPR is provided in 1996-97 for the student achievement guarantee in education (SAGE) program. The SAGE program awards five-year grants to school districts with at least one school with an enrollment made up of at least 50% low-income pupils (as defined by USC 2723) in the previous school year. Until June 30, 1997, school districts are eligible to enter into a five-year achievement guarantee contract with the Department of Public Instruction (DPI) on behalf of one school in the district if in the previous school year, the school had an enrollment that was made up of at least 30% low-income pupils and the school board is not receiving a preschool through grade five (P-5) grant on behalf of that school.

The Milwaukee Public Schools can enter into contracts on behalf of up to 10 schools. If other districts have more than one eligible school, they are required to contract for the school with the largest number of low-income pupils in kindergarten and first grade. SAGE contracts cover kindergarten and first grade in 1996-97, with the addition of grade two in 1997-98 and grade three in 1998-99. The program sunsets on June 30, 2001.

School districts must do all of the following in each SAGE school: (a) reduce each class size to 15 pupils; (b) keep the school open every day for extended hours and collaborate with community organizations to make educational and recreational opportunities as well as community and social services available in the school to all district residents; (c) provide a rigorous academic curriculum designed to improve academic achievement; and (d) create staff development and accountability programs that provide training for new staff members, encourage employee collaboration, and require professional development plans and performance evaluations.

Funding per pupil is determined by dividing the amount appropriated by the number of low-income pupils enrolled in eligible grades in every SAGE school in the state. Kindergarten pupils are pro-rated based on the number of hours per day they spend at school. School districts may receive no more than \$2,000 for each low-income pupil; in 1996-97, SAGE schools will receive the full \$2,000 for each low-income FTE pupil in kindergarten and first grade.

Additionally, DPI is required to arrange for an evaluation of the SAGE program and must allocate \$250,000 annually for this purpose. The Department has contracted with the University of Wisconsin-Milwaukee (UWM) for this evaluation.

In order to continue to receive funding under the SAGE program, school districts must pass an annual review. At the end of the 1996-97 school year, DPI may terminate a contract if it determines that a school board has failed to fully implement the SAGE requirements. At the end of the following three school years, a committee consisting of the State Superintendent, the Chairpersons of the Education Committees in the Senate and Assembly and the head of the UWM evaluation team must review the progress of each SAGE school and may recommend that DPI terminate a contract if a school has made insufficient progress or has violated the requirements of SAGE.

GOVERNOR

No provision.

DISCUSSION POINTS

1. The SAGE program was established under 1995 Act 27 (the 1995-97 budget) with the intention of funding the program for five years beginning in 1996-97 with kindergarten and first grade and adding additional funding for second grade in 1997-98 and third grade in 1998-99. Based on recommendations from the Urban Initiative study completed by DPI in order to identify methods for improving pupil achievement in low-income school districts, SAGE was initiated as a five-year program, and included a provision for a program evaluation which would determine the effectiveness of the components of SAGE. If SAGE proved successful in improving the performance of low-income K-3 pupils, the program could be funded beyond the June 30, 2001 sunset date.

2. In 1996-97, 21 school districts have SAGE contracts with DPI on behalf of 30 individual schools and 2,165 FTE kindergarten and first grade pupils. The SAGE participating schools and school districts are listed in an attachment to this paper. School districts receive \$2,000 for each eligible pupil. Each of the 21 school districts participating in SAGE have signed formal contracts with DPI regarding the state and school district obligations under the program,

including the provision that the requirements of the contract would extend through the 2000-01 school year.

3. SAGE school districts argue that without additional funding, they will be unable to add second grade pupils in 1997-98 and third grade pupils in 1998-99, as required by state statute. The primary expense for SAGE districts is hiring additional teachers and staff to meet the pupil to teacher ratio for classrooms. Arguably, due to revenue limits, without funding from the SAGE program, districts would be required to reduce funding for other school district activities in order to fund lower class-size ratios at these particular schools. Districts argue that the SAGE program was created to be a five-year commitment to districts and should be funded at levels sufficient to add second and third grades. While the results of the UWM evaluation will not be available for several years, public testimony from teachers and parents has highlighted some positive preliminary results of SAGE.

4. DPI indicates that based on eligible pupil estimates provided to the Department by the 30 SAGE schools, 3,355 FTE kindergarten through second grade pupils will be eligible in 1997-98 and 4,540 FTE kindergarten through third grade pupils will be eligible in 1998-99. Based on these pupil counts, the SAGE program would need an additional \$2,369,000 GPR in 1997-98 and \$4,739,000 GPR in 1998-99 to fund each eligible pupil at \$2,000 each.

5. Under current law, DPI may prorate the per pupil amount allocated to school districts if insufficient funding is available to provide \$2,000 per low-income FTE pupil. It is likely that many school districts would continue to participate even if the per pupil payment would be less than \$2,000. Using this rationale, the Committee could provide funding for the extension of SAGE into second and third grades at \$1,800 per pupil, which would result in a 10% prorate by DPI, if all school districts continued to participate. If enrollments are lower than currently projected, DPI could provide more than \$1,800 per low-income FTE pupil. Based on current estimates, funding SAGE schools at \$1,800 per low-income FTE pupil would require an additional \$1,698,000 in 1997-98 and \$3,831,000 GPR in 1998-99.

6. Staff at DOA indicate that the Governor was unable to provide increases in SAGE funding due to significant GPR commitments made in other areas, including a new categorical aid program for K-12 educational technology. If the Committee would wish to continue to fund eligible kindergarten and first grade pupils at the full \$2,000 per pupil, but not extend SAGE to second and third grades, it could delete the requirements that SAGE schools add second and third grades, and provide base-level funding which would be sufficient to continue SAGE for grades K-1.

7. Both the Legislative Council Special Committee on the School Aid Formula and the Senate Education Committee recommended full funding of the SAGE program.

8. The SAGE program is considered a categorical aid and is included in the calculation of the state's goal of funding 66.7% of partial school revenues. If additional funding

is provided for this program, the amount of equalization aid could be reduced by 33.3 cents for every dollar of added funding. As a result, school district levies would increase to maintain the level of maximum revenues allowed under school district revenue limits.

ALTERNATIVES TO BASE

1. Provide \$2,369,000 GPR in 1997-98 and \$4,739,000 GPR in 1998-99 to increase funding for the SAGE program. This would provide sufficient funding to add second grade pupils in 1997-98 and third grade pupils 1998-99 at an estimated \$2,000 per low-income FTE pupil in the program.

all motion #3235 For vote →

<u>Alternative 1</u>	<u>GPR Change to Base/Bill</u>		
	<u>1997-98</u>	<u>1998-99</u>	<u>Biennium</u>
SAGE Payments	\$2,369,000	\$4,739,000	\$7,108,000
SB 77 Equalization Aids	<u>- 788,900</u>	<u>- 1,578,100</u>	<u>- 2,367,000</u>
Net Effect to SB 77	\$1,580,100	\$3,160,900	\$4,741,000

2. Provide \$1,698,000 GPR in 1997-98 and \$3,831,000 GPR in 1998-99 to increase funding for the SAGE program. This would provide sufficient funding to add second grade pupils in 1997-98 and third grade pupils 1998-99 at an estimated \$1,800 per low-income FTE pupil in the program.

<u>Alternative 2</u>	<u>GPR Change to Base/Bill</u>		
	<u>1997-98</u>	<u>1998-99</u>	<u>Biennium</u>
SAGE Payments	\$1,698,000	\$3,831,000	\$5,529,000
SB 77 Equalization Aids	<u>- 565,400</u>	<u>- 1,275,700</u>	<u>- 1,841,100</u>
Net Effect to SB 77	\$1,132,600	\$2,555,300	\$3,687,900

3. Continue the SAGE program at current base funding levels and delete the statutory requirements that the program must expand to second grade in 1997-98 and third grade in 1998-99.

Prepared by: Ruth Hard

MO# _____		BURKE	Y	N	A		
JENSEN	Y	N	A	DECKER	Y	N	A
OURADA	Y	N	A	GEORGE	Y	N	A
HARSDORF	Y	N	A	JAUCH	Y	N	A
ALBERS	Y	N	A	WINEKE	Y	N	A
GARD	Y	N	A	SHIBILSKI	Y	N	A
KAUFERT	Y	N	A	COWLES	Y	N	A
LINTON	Y	N	A	PANZER	Y	N	A
COGGS	Y	N	A				

AYE _____ NO _____ ABS _____ on (Paper #664)

PUBLIC INSTRUCTION

Treatment of SAGE funding for 66.7% Funding

Motion:

Move to specify that any increases from current law in SAGE categorical aids would not be included in the definition of partial school revenues for purposes of calculating state funding of 66.7% of partial school revenues. Delete equalization aids in an amount equal to any increase in SAGE funding.

MO# 3235 + Alt #1 in Paper # 604

JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A

AYE 10 NO 6 ABS

ATTACHMENT

SAGE Participating Schools 1996-97

<u>District Name</u>	<u>School Name</u>
Adams-Friendship Area	Adams Elementary
Beloit	Robinson Elementary
Cudahy	Parkview Elementary
Gilman	Gilman Elementary
Glidden	Glidden Elementary
Green Bay Area	Jefferson Elementary
Janesville	Wilson Elementary
Kenosha	Durkee Elementary
La Crosse	Hamilton Elementary
La Crosse	Franklin Elementary
Lac Du Flambeau #1	Lac Du Flambeau Elementary
Laona	Robinson Elementary
Madison Metropolitan	Glendale Elementary
Menominee Indian	Keshena Primary
Menomonie Area	River Heights Elementary
Milwaukee	Carlton Elementary
Milwaukee	Fairview Elementary
Milwaukee	Longfellow Elementary
Milwaukee	Maple Tree Elementary
Milwaukee	Maryland Avenue Elementary
Milwaukee	Sherman Elementary
Milwaukee	Wisconsin Conservatory of Lifelong Learning
Prentice	Tripoli Elementary
Prentice	Ogema Elementary
Siren	Siren Elementary
South Shore	South Shore elementary
Superior	Blaine Elementary
Superior	Cooper Elementary
Suring	Mountain Elementary
Webster	Webster Elementary

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

School Levy Tax Credit (DPI)

[LFB Summary: Page 461, #2 and Page 543, #1]

CURRENT LAW

The school levy property tax credit is distributed based on each municipality's share of statewide levies for school purposes during the three preceding years. A total of \$469,305,000 GPR was distributed for this purpose against the 1996(97) tax levy. Municipalities receive the school levy tax credit payment for the previous December's property tax bills on the fourth Monday in July. Therefore, the school levy tax credit for the December, 1996 (payable 1997) property tax bills is not paid by the state until fiscal year 1997-98. Funding in following years will stay at \$469,305,000 GPR unless the Legislature establishes a new funding level.

GOVERNOR

Increase the school levy tax credit distribution for the 1998(99) property tax levy and thereafter by \$100,000,000, from \$469,305,000 to \$569,305,000. Since the school levy tax credit appearing on December, 1998, property tax bills would not be paid until July, 1999, additional funding for the credit would not be needed until 1999-2000. Therefore, although this provision would not increase appropriations in the 1997-99 biennium, an increase of \$100,000,000 annually over the base funding level would need to be provided in the 1999-2001 biennium for this purpose.

DISCUSSION POINTS

1. The state is committed to provide 66.7% of partial revenues for public K-12 schools in the 1996-97 school year and thereafter. The measurement of the state's share to attain the 66.7% goal is statutorily defined to equal the sum of state school aid (general and categorical) and the school levy tax credit divided by the sum of state school aid and gross school property taxes (known as partial revenues). Therefore, any increase in the school levy credit would be counted towards reaching the 66.7% funding goal.

2. SB 77 would increase state funding (in millions of dollars) for K-12 education as follows:

	1996-97		1997-98			1998-99		
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Increase</u>	<u>Amount</u>	<u>%</u>	<u>Increase</u>
General Aid	\$3,184.5	78.9%	\$3,376.5	79.5%	\$192.0	\$3,450.7	77.8%	\$74.2
Categorical Aid	381.6	9.5	398.7	9.4	17.1	418.7	9.4	20.0
Levy Tax Credit*	<u>469.3</u>	<u>11.6</u>	<u>469.3</u>	<u>11.1</u>	<u>0.0</u>	<u>569.3</u>	<u>12.8</u>	<u>100.0</u>
Total	\$4,035.4	100.0%	\$4,244.5	100.0%	\$209.1	\$4,438.7	100.0%	\$194.2

*Amounts shown reflect property tax year and not state fiscal year.

3. The traditional argument for providing property tax relief through tax credits rather than aids paid directly to local governments, such as general school aids or shared revenue, is that credits are more difficult for local governments to utilize for local spending. However, under the current revenue limits imposed on school districts, increases in general school aids have an automatic tax relief effect, unless the school district passes a referendum to allow additional spending.

4. According to the administration, there are two primary reasons for the Governor's proposal to increase the school levy tax credit. First, the credit reduces individual owner's property tax bills. Second, the change in the mix of state support between general aids, categorical aids and the levy credit achieved in 1998-99 represents the Governor's plan of how the state should accomplish its two-thirds funding goal. One other feature of the levy credit is that increasing the credit in the second year of the 1997-99 biennium would serve to delay a portion of the cost to fully fund two-thirds state support of partial school revenues until the 1999-2001 biennium. In 1995 Act 27 (the 1995-97 budget), the levy credit was increased from \$319.3 million to \$469.3 million, or \$150 million, for the 1996(97) property tax levy, which will first be paid in July, 1997.

5. The school levy tax credit provides a uniform percentage reduction in school taxes for all classes of taxpayers (commercial, industrial, and other types as well as residential).

Statewide, the credit was equal to approximately 18.6% of the gross school tax levy for 1996(97). Since this reduction is fairly uniform between school districts and has a similar effect on school tax rates, the credit may be characterized as being neutral with regard to equalization.

6. The continued use of the school levy tax credit formula to distribute tax credit funding has been viewed by some as a lost opportunity for the state to enhance the equalization of tax base among school districts. The policy of tax base equalization affects the mix of aid and tax levies within individual school districts by insuring that low-valued districts receive more state aid while higher-valued districts must rely more heavily on tax levies. Thus, increasing state support for schools by distributing more state funds through the school levy tax credit program would have the effect of distributing a larger proportion of those dollars to higher-value districts than would result if the general equalization aid formula was used to distribute those dollars. These higher-value school districts have, to some degree, a tax base advantage over other school districts. It is argued that adding the funding for the school levy credit (either the base amount or the additional amount provided in SB 77) to the general school aid formula would achieve an even greater degree of tax base equalization, because most districts on the equalization aid formula would realize a larger reduction in their tax rates if the formula was used to distribute the funds; whereas, higher-value districts would generally do better if the school levy credit was the mechanism.

7. Taxpayers in the highest-value areas of the state will not share in any increase in general school aids. One could argue that elimination of the levy credit would leave those taxpayers no additional aid from the state, although they pay state taxes that support these aid programs.

8. If the Committee believes that the general school aid formula should be used as the means of distributing the \$100 million increase in the school levy tax credit, there are two possible options which would avoid having to provide additional school aids over the SB 77 funding levels.

- The funds could still be paid as a property tax credit, but the general equalization aid formula would be used to compute the credit amounts. This approach was used to distribute a portion of the property tax credits paid in 1982 through 1987. One problem with using the general school aid formula to calculate the credits is that the distribution of the payment will be skewed somewhat if it is calculated as the "last dollars" added to the formula. An alternative would be to calculate the general school aid formula with the \$100,000,000 included and then distribute the credit based on the proportion that this amount represents of the total distribution amount. For example, in 1998-99, approximately \$3,448.4 million will be distributed as general equalization aid under SB 77. When it is added to this amount, \$100 million would represent about 2.8% of the total distribution amount of \$3,548.4 million. Therefore, 97.2% of the equalization aid distribution would be paid directly to the school district and 2.8% would be paid as a property tax credit.

• The funds could be distributed through the general school aid formula and paid as a direct aid to school districts, but the payment would be delayed until the fourth Monday in July of the next fiscal year. School districts would treat this school aid payment as a receipt in the prior fiscal year, which is permitted under general accounting practices. While this approach could be viewed by some as simply an accounting maneuver, it accomplishes the same intent as the Governor's proposal (permanently delaying a portion of the cost by one year) and it would preserve the principle of tax base equalization without having to use a property tax credit to do so.

9. On April 29, 1997, the Legislative Council Special Committee on the School Aid Formula voted to phase out the school levy tax credit over a six-year period beginning in 1999-2000. Over this time frame, the levy credit would be reduced by \$100 million each year, with a corresponding increase in the amount distributed as equalization aid. The total amount of funding would continue to be applied to one fiscal year, with the payment delayed until the following fiscal year. The Special Committee also recommended that the \$100 million increase in the 1998(99) school levy tax credit, as proposed by the Governor, be paid as equalization aid and that the payment be delayed until July 1, 1999.

ALTERNATIVES TO BASE

1. Approve the Governor's recommendation to increase the school levies tax credit distribution for the 1998(99) property tax levy by \$100,000,000, from \$469,305,000 to \$569,305,000, which would be paid in July, 1999.

2. Modify the Governor's recommendation by providing that the \$100,000,000 would be distributed as a property tax credit according to the general school aid formula. Provide that the "school aid credit" payment amount would be determined by dividing \$100,000,000 by the total amount available for distribution through the equalization aid formula and that percentage would be applied to each school district's aid entitlement.

3. ^{QAS} Delete the Governor's recommendation. Instead, increase funding for the 1998-99 distribution of general equalization aids by \$100,000,000; however, delay payment of this amount to the fourth Monday in July, 1999. Specify that school districts would record this aid payment as if it were received in fiscal year 1998-99. In addition, provide that this shift of \$100,000,000 would be permanent; that is, school districts would continue to receive \$100,000,000 in general school aids on the fourth Monday in July of each year.

4. Delete the Governor's recommendation. Instead, phase out the school levy tax credit over a six-year period beginning in 1999-2000, by reducing the levy credit by \$100 million each year, with a corresponding increase in the amount distributed as equalization aid. Increase funding for the 1998-99 distribution of general equalization aids by \$100,000,000; however, delay payment of this amount to the fourth Monday in July, 1999. Specify that school districts record

this aid payment as if it were received in fiscal year 1998-99. In addition, provide that this shift of \$100 million each year would be permanent; that is, school districts will continue to receive the amount shifted to general school aids on the fourth Monday in July of each year.

5. Delete the Governor's recommendation and increase the general equalization aid appropriation by \$100,000,000 GPR in 1998-99. This would have the effect of transferring \$100 million to be paid, under SB 77, in 1999-2000 to payment in 1998-99.

<u>Alternative 5</u>	<u>GPR</u>
1997-99 FUNDING (Change to Base)	\$100,000,000
[Change to Bill	\$100,000,000]

Prepared by: Bob Soldner

MO# Alt # 3

JENSEN	Y	N	A
1 OURADA	Y	N	A
2 HARDSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A

AYE 13 NO 3 ABS _____

PUBLIC INSTRUCTION

School Aid

Motion:

Move to replace the term "general equalization school aid" with the term "property tax relief."

MO# 3246

JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A

AYE 8 NO 8 ABS

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Aid for School Districts with Low-Income Students (DPI)

CURRENT LAW

A brief description of current state programs relating to low-income students follows.

Preschool to Grade 5 Grants. Since 1986-87, grants have supported programs designed to improve the education of preschool through grade five (P-5) pupils enrolled in school districts with high concentrations of economically disadvantaged and low-achieving pupils. A district receiving a grant must ensure that each elementary school complies with certain requirements regarding class size (no more than 25 pupils per teacher), annual testing in basic skills, 4-year-old kindergarten, identification of pupils needing remedial assistance, parental involvement, in-service training and staff evaluations.

Grants are awarded on a competitive basis to elementary schools within a limited number of school districts (based on high numbers of dropouts and low-income pupils) for a three-year period. Grants cannot be renewed unless it is determined that the school has met performance objectives jointly established by DPI and the school. The grants are to supplement existing programs and cannot replace funds otherwise available for such programs.

In 1996-97, 39 elementary schools within four school districts (Beloit, Kenosha, Milwaukee and Racine) participated in the program. Budgeted funding totalled \$6,670,000 GPR in 1996-97.

Head Start Supplement. Since 1990-91, state grants have been provided as a supplement to the federal Head Start program which provides comprehensive educational, health, nutritional, social and other services to economically disadvantaged children and their families. Funds are distributed to federally-designated Head Start agencies, with preference given to those already

receiving federal funding, to enable expansion of their programs. Grants may be used as a match for federal funds only if the state funds are used to secure additional federal support. Federal funding for Head Start in Wisconsin has increased from \$26.6 million in federal fiscal year 1990-91 to an estimated \$51.05 million in federal fiscal year 1996-97 (not including special programs for American Indians). In 1996-97, 34 agencies including six school districts (Green Bay, Kenosha, Lac du Flambeau, Merrill, Milwaukee and West Bend) and three CESAs participated in the program. State funding totalled \$4,950,000 GPR in 1996-97.

Nutritional Programs. The state makes payments to school districts and private schools for the following purposes: (a) to partially match the federal contribution under the national school lunch program which provides free or reduced price meals to low-income children; (b) to support the cost of reduced price meals served to the elderly; (c) to reimburse the cost of morning milk provided to low-income children in preschool through fifth grade in schools which do not participate in the federal special milk program; and (d) to provide grants to establish school breakfast programs in schools with high concentrations of low-income pupils.

The state share of funding varies as follows: (a) school lunch--a variable percentage (28.6% for 1996-97 aids) of the amount of federal basic reimbursement provided in 1980-81 (\$14.4 million) determines the state match, which is then allocated among school districts and private schools according to the number of lunches served during the prior school year; (b) elderly nutrition--15% of the cost of the meal or 50 cents per meal, whichever is less; (c) morning milk--100% reimbursement if funds are available; and (d) school breakfast--grants of up to \$10,000 to each school district. State funding for these programs totalled approximately \$4.7 million GPR in 1996-97.

Student Achievement Guarantee in Education (SAGE). The SAGE program, created under 1995 Act 27, awards five-year grants to school districts with at least one school with an enrollment made up of at least 50% low-income pupils (as defined by USC 2723) in the previous school year. Until June 30, 1997, school districts are eligible to enter into a five-year achievement guarantee contract with DPI on behalf of one school in the district if in the previous school year, the school had an enrollment that was made up of at least 30% low-income pupils and the school board was not receiving a P-5 grant on behalf of that school. The Milwaukee Public Schools could enter into contracts on behalf of up to 10 schools. If other districts had more than one eligible school, they were required to contract for the school with the largest number of low-income pupils in kindergarten and first grade. SAGE contracts will cover kindergarten and first grade in 1996-97, with the addition of grade two in 1997-98 and grade three in 1998-99. The program sunsets on June 30, 2001.

School districts must do all of the following in each SAGE school: (a) reduce each class size to 15 pupils; (b) keep the school open every day for extended hours and collaborate with community organizations to make educational and recreational opportunities as well as community and social services available in the school to all district residents; (c) provide a rigorous academic curriculum designed to improve academic achievement; and (d) create staff

development and accountability programs that provide training for new staff members, encourage employee collaboration, and require professional development plans and performance evaluations.

Funding per pupil is determined by dividing the amount appropriated by the number of low-income pupils enrolled in eligible grades in every SAGE school in the state. The Department estimates in 1996-97, SAGE schools will receive \$2,000 for each low-income FTE pupil in kindergarten and first grade. In 1996-97, 30 schools in 21 districts participated in the program and \$4,591,000 GPR was budgeted for this purpose.

GOVERNOR

No provision.

DISCUSSION POINTS

1. The issue of low-income student weighting was discussed at length by the Legislative Council Special Committee on the School Aid Formula. Some of the testimony before the Special Committee indicated that the educational needs of low-income students place an additional burden on school districts that is not properly reflected in the state's equalization aid formula or in the current categorical aid programs provided by the state. It was indicated that costs associated with a low-income student could be 25% or more higher than for other students.

2. Initially, the Committee's discussions focused on incorporating a pupil weighting factor in the equalization aid formula. This approach raised two basic concerns. First, because of the nature of the state's general school aid formula, the addition of some students in the membership count in some districts causes significant shifts in the distribution of state aid. Second, aid provided through the equalization formula is not targeted for specific programs but rather, is used for general educational purposes and property tax relief. Thus, even if a district's aid increases due to the weighting mechanism, it is difficult to specifically direct that increase to a specific program.

3. A concern with any proposal to modify formulas or target funding to low-income students is the definition of "low-income students." A number of measures have been suggested -- AFDC population, federal Chapter 1 counts and students participating in the free and reduced price lunch program. Each has shortcomings. A true count of low-income children in school districts that is consistent across school districts does not currently exist.

For example, school districts have the option of participating in the federal free and reduced price lunch program. Under the program, a student is eligible for free meals if household income is less than or equal to 130% of the federal poverty level for that household size. A student is eligible for a reduced price lunch if household income is less than or equal to 185%

of the federal poverty level. Because participation by school districts and by individual students is voluntary, this data may not provide an accurate measure of the number of low-income students in each school district.

4. Following numerous discussions on these issues, the Legislative Council Special Committee on the School Aid Formula voted to recommend creation of a categorical aid program for school districts with low-income students at a funding level of \$100 million. An attachment provides a summary of this proposal.

5. Three factors influenced the design of the proposed categorical aid program. First, one of the goals of the Special Committee was to allow school districts to increase spending. By structuring the aid program as a categorical aid, school districts could spend this money, since categorical aids are outside of the revenue limits. Second, there was an interest in having an equalization component to the proposal. This would be accomplished by weighting the number of low-income students by the average percentage of support received by each school district under the state's equalization aid formula. Finally, it was indicated that it would be desirable if the fiscal effect of the proposal could be minimized. This was accomplished by: (a) redirecting the proposed SB 77 increase of \$100 million in the school levy tax credit, which would be paid in July, 1999; and (b) modifying the definition of partial school revenues to exclude the proposed categorical aid, which avoids having to add \$66.7 million in equalization aids that otherwise would have to be provided to meet the goal of funding 66.7% of partial school revenues.

6. Milwaukee Public Schools (MPS) would receive \$25 million of aid in 1998-99 under the proposal, because of the proposed 25% limit on the amount of aid a single district could receive. If there would be no 25% limit, MPS would receive an estimated \$37 million in aid. This would occur because MPS has: (a) approximately 33% of the students eligible for federal free and reduced price lunch in the state; (b) below average equalized value per member; and (c) below average shared cost per member. Each of these factors would tend to increase the aid entitlement for MPS.

7. The proposal would modify the definition of partial school revenues for purposes of determining the amount of state monies needed to meet the goal of funding 66.7% of partial school revenues. The following table illustrates the calculation of this funding goal in 1998-99. The table uses the proposed SB 77 funding amounts and estimates, and reflects the proposed shift in the funding goal from 66.7% to 66.666...%.

**Illustration of the Calculation of
Two-Thirds Funding Under the Proposal
(\$ in Millions)**

Current Law Definition

$$\text{Percentage of State Support} = \frac{\text{General School Aids} + \text{Categorical Aids} + \text{Levy Credit}}{\text{General School Aids} + \text{Categorical Aids} + \text{Gross School Levy}}$$

Current Law Definition with SB 77 Numbers as Affected by Proposal

$$\frac{\$3,448.4 + \$521.0 + \$469.3}{\$3,448.4 + \$521.0 + \$2,788.7} = \frac{\$4,438.7}{\$6,758.1} = 65.68\%$$

Proposed Definition with SB 77 Numbers as Affected by Proposal

$$\frac{\$3,448.4 + \$521.0 + \$469.3}{\$3,448.4 + \$421.0 + \$2,788.7} = \frac{\$4,438.7}{\$6,658.1} = 66.666...\%$$

As shown in the table, the proposal changes the current law definition so that categorical aids would be treated as \$521 million in the numerator and as \$421 million in the denominator, for purposes of calculating the two-thirds funding goal. If the current law definition would be used, the proposal would shift funding in such a way as to cause the state to fall short of the SB 77 two-thirds funding goal. An additional \$66.7 million would otherwise have to be provided in equalization aids in order to attain the SB 77 two-thirds funding goal.

ALTERNATIVES TO BASE

① *FAIL* 1. Approve the proposal to create a categorical aid program for low-income students, beginning in 1998-99, as summarized in the attachment. Shift \$100 million from the school levy tax credit in 1998-99, payable in July, 1999, to fund the program.

② *Default* 2. Take no action.

Prepared by: Dave Loppnow

MO# <i>AH#1</i>			BURKE	<i>X</i>	N	A
			DECKER	<i>X</i>	N	A
			GEORGE	<i>X</i>	N	A
			JAUCH	<i>X</i>	N	A
			WINEKE	<i>X</i>	N	A
			SHIBILSKI	<i>X</i>	N	A
			COWLES	Y	<i>N</i>	A
			PANZER	Y	<i>N</i>	A
JENSEN	Y	<i>N</i>	A			
OURADA	Y	<i>N</i>	A			
HARSDORF	Y	<i>N</i>	A			
ALBERS	Y	<i>N</i>	A			
GARD	Y	<i>N</i>	A			
KAUFERT	Y	<i>N</i>	A			
LINTON	<i>X</i>	N	A			
COGGS	<i>X</i>	N	A			
				AYE <i>8</i>	NO <i>8</i>	ABS

ATTACHMENT

Legislative Council's Special Committee on the School Aid Formula Proposal to Create a Categorical Aid Program for Low Income Students

Definition of Low Income Students Under the Proposal. Under the proposal, school districts would receive aid based on the number of students participating in the federal free and reduced price lunch program.

Currently, school districts have the option of participating in the federal free and reduced price lunch program. Under this program, a student is eligible for free meals if household income is less than or equal to 130% of the federal poverty level for that household size. A student is eligible for a reduced price lunch if household income is less than or equal to 185% of the federal poverty level. Two limitations of this data warrant consideration: (a) some school districts choose not to participate in the program; and (b) otherwise eligible students may decide not to receive these meals.

Determination of Aid Amount for School Districts. Under the proposal, \$100 million of funding would be provided in 1998-99 for this low income pupil weighting program. The amount of aid each school district would receive would be calculated by dividing total funding by the weighted number of low-income students statewide, and multiplying this amount by the number of weighted students in each school district. The number of low-income students would be weighted by multiplying the number of low-income students by the percentage of shared costs that the school district received in equalization aids in the prior year. No district could receive more than 25% of the appropriated amount available for this program.

In 1995-96, approximately 224,000 students participated in the free and reduced price lunch program. After weighting, the weighted count using 1995-96 data would be approximately 151,500. As a result of the 25% maximum aid limitation, the Milwaukee Public School would receive \$25 million of aid under the proposal. Other school districts, with the remaining 94,400 weighted students, would receive an aid amount of \$795 per weighted student, if all chose to participate.

Two examples of this calculation follow:

	<u>School District A</u>	<u>School District B</u>
Low-Income Students	100	200
Equalization Aid	\$1,200,000	\$1,800,000
Shared Cost	\$6,000,000	\$3,000,000
Aid as a % of Cost	20%	60%
Weighted Low-Income Students	20	120
Aid Per Weighted		
Low-Income Student	\$795	\$795
Aid Amount	\$15,900	\$95,400

As shown in the examples, School District A represents a higher value district that receives less support under the state's equalization aid formula. Using the average percent of aid District A receives (20%) as a weighting factor for its low-income students, District A's 100 low-income students count as 20 weighted low-income students under the proposal. With \$100 million of funding, each weighted student would generate \$795 of aid, so that District A would be eligible for \$15,900.

District B represents a somewhat lower value district that receives more support under the state's equalization aid formula. Using the average percent of aid District B receives (60%) as a weighting factor for its low-income students, District B's 200 low-income students count as 120 weighted low-income students under the proposal. At \$795 of aid per weighted student, District B would be eligible for \$95,400.

School District Eligibility Notification. Under the proposal, the Department of Public Instruction would notify school districts of the amount of aid they would be entitled to in the next school year by November 15. School districts would have until January 1 to inform DPI of whether they wish to participate in the program and to submit a plan of how they would utilize the funding, for DPI approval. By February 15, DPI would inform school districts of whether their spending plans were approved, and school districts would have until March 15 to submit a revised plan, if necessary. By April 1, DPI would inform school districts of the amount of aid they would receive. This final aid amount would include any monies not accepted by school districts, which would be distributed to participating districts using the same weighted student calculation, applied to the remaining districts.

Use of Aid. School districts would be required to use the aid received under the proposal to reduce the class size in grades K-3 to 15 students per teacher to the extent possible. School districts would be required to give preference to schools in the district with attendance by a greater percentage of low-income students. If a district could document a lack of classroom space to implement a lower class size, the aid could be used for new construction or additions to school facilities.

Payment Date. DPI would pay the aid on the fourth Monday in July, 1999, but for accounting purposes, the school district would count the aid as a receipt in 1998-99.

Revenue Limits. School district revenue limits would not apply to the aid received by districts under this proposal, so that spending in 1998-99 could be increased by the amount of aid received in July, 1999.

Definition of Partial School Revenues. The proposal would specify that the proposed categorical aid would not be considered part of partial school revenues. As a result, the \$100 million of aid would not enter into the denominator of the calculation of 66.7% of partial school revenues, which reduces the amount of state aid that would be needed to meet the goal than would otherwise be the case.

Source of Funding. Delete the proposed \$100 million increase in SB 77 in the school levy tax credit that would be paid in July, 1999. Instead, use this funding for the proposed categorical aid program.

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

State Tuition Payments Reestimate (Public Instruction)

[LFB Summary: Page 465, #7]

CURRENT LAW

Under this program, the state reimburses eligible school districts and county handicapped children's education boards for the cost of educating children who live in properties for which there is no parental property tax base support, including: (a) children who live in children's homes; (b) children whose parents are employed at and live on the grounds of a state or federal institution; and (c) children who live in foster or group homes. The state payment is calculated on the basis of the school district's average daily cost per pupil and the number of school days the child is enrolled in school.

GOVERNOR

Provide \$616,000 GPR in 1997-98 and \$1,016,000 GPR in 1998-99 for state tuition payments. Total funding would increase from \$6,620,700 in 1996-97 to \$7,236,700 (9.3%) in 1997-98 and \$7,636,700 (5.5%) in 1998-99.

DISCUSSION POINTS

1. DPI estimates that a total of \$6,121,500 GPR will be paid as reimbursements in 1996-97. Therefore, \$499,200 will lapse to the general fund on July 1, 1997.

2. DPI has stated that this program should be fully-funded in order to meet the state's obligation to pay the educational costs of these children. DPI argues that unlike aid programs, which share a school district's cost of educating children for whom the school district has responsibility, these tuition payments are a payment for services to the school district for educating children who are the state's responsibility.

3. The Department has indicated that if school district claims are higher than the appropriated amounts, it is likely that it would seek additional funding through the s. 13.10 process. The Committee approved an increase for state tuition payments in the 1992-93 fiscal year, which was the last year that the appropriated amounts were insufficient to fully fund school district claims.

4. Based on the most recent information, state tuition payments would be an estimated \$7,445,100 in 1997-98 and \$7,595,100 in 1998-99. These estimated increases are primarily the result of more school districts providing services to children in county juvenile detention centers.

5. State tuition payments are considered a categorical aid and are included in the calculation of the state's goal of funding 66.7% of partial school revenues. If additional funding is provided for this program, the amount of equalization aid could be reduced by 33.3 cents for every dollar of added funding. As a consequence, school district levies would increase to maintain the level of maximum revenues allowed under school district revenue limits.

MODIFICATION TO BASE

Provide \$824,400 GPR in 1997-98 and \$974,400 GPR in 1998-99 for state tuition payments, as increases to base funding of \$6,620,700 GPR in 1996-97. These funding amounts would represent a change to the bill of \$208,400 GPR in 1997-98 and -\$41,600 GPR in 1998-99 for state tuition payments. The estimated net effect to SB 77, including equalization aids, is included in the table below.

	<u>GPR Change to Base</u>			<u>GPR Change to Bill</u>		
	<u>1997-98</u>	<u>1998-99</u>	<u>1997-99 Biennium</u>	<u>1997-98</u>	<u>1998-99</u>	<u>1997-99 Biennium</u>
State Tuition Payments	\$824,400	\$974,400	\$1,798,800	\$208,400	-\$41,600	\$166,800
SB 77 Equalization Aids	<u>-274,500</u>	<u>-324,500</u>	<u>-599,000</u>	<u>-69,400</u>	<u>13,900</u>	<u>-55,500</u>
Net Effect to SB 77	\$549,900	\$649,900	\$1,199,800	\$139,000	-\$27,700	\$111,300

Prepared by: Bob Soldner

MO# Modification
to Base

ZJENSEN	<u>X</u>	N	A
OURADA	<u>X</u>	N	A
HARSDORF	<u>X</u>	N	A
ALBERS	<u>X</u>	N	A
GARD	<u>X</u>	N	A
KAUFERT	<u>X</u>	N	A
LINTON	<u>X</u>	N	A
COGGS	<u>X</u>	N	A

BURKE	<u>X</u>	N	A
DECKER	<u>X</u>	N	A
GEORGE	<u>X</u>	N	A
JAUCH	<u>X</u>	N	A
WINEKE	<u>X</u>	N	A
SHIBILSKI	<u>X</u>	N	A
COWLES	<u>X</u>	N	A
PANZER	<u>X</u>	N	A

AYE 16 NO 0 ABS

PAPER #667

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Transfer of Certain School-to-Work Programs to DWD (DPI, DWD and WTCS)

[LFB Summary: Page 494, #47, Page 660, #10, Page 661, #12, Page 665, #1]

CURRENT LAW

The Department of Public Instruction (DPI), through its Office of School-to-Work Transition is responsible for assisting school boards in complying with state requirements that each school board provide access to an education for employment program approved by DPI. Beginning in the 1997-98 school year, each education for employment program must incorporate applied curricula, guidance and counseling services, technical preparation, college preparation, youth apprenticeship or other job training and work experience and instruction in skills relating to employment.

Additionally, DPI and the Wisconsin Technical College System (WTCS) Board divide federal funds allocated to Wisconsin under the Carl D. Perkins Vocational and Applied Technology Education Act of 1990. In 1996-97, total funding was \$21 million with DPI and WTCS each receiving \$10.5 million. Each agency is required to use the grant as follows: (a) 75% distributed by formula to school districts and technical college districts; (b) 11.5% for specialized programs, such as gender equity and single parent programs; (c) 8.5% for statewide leadership projects; and (d) 5% for program administration. The WTCS Board acts as the fiscal agent for the federal grant and transfers funds to DPI, which are deposited in two separate appropriations. The first appropriation is for program operations supported by funds transferred by other state agencies, and the second is for funds transferred from other state agencies to carry out the purposes for which the funds are received. The Department of Workforce Development (DWD) does not receive funding under the Carl Perkins Act.

The school-to-work initiative is characterized by programs and curricular changes which are intended to better prepare secondary school pupils to enter the workforce, whether immediately following high school graduation or after some type of postsecondary education. Generally, school-to-work programs are aimed at: encouraging students to plan for a career more thoroughly and at an earlier age; acquainting students with alternatives to a baccalaureate degree, such as associate degree programs and apprenticeships; and forging partnerships between K-12 schools and technical colleges, universities and businesses in order to provide distinct pathways from school to the workforce.

Wisconsin's school-to-work initiative is comprised of five major components: (a) local partnerships; (b) youth apprenticeships; (c) career counseling centers; (d) technical preparation (tech-prep); and (e) postsecondary enrollment options. Oversight of these programs is provided by DPI, WTCS and DWD. Federal, state and local funds support the various components. DPI's programs focus on career exploration and planning as well as work- and school-based learning, which DPI integrates into curricula at all levels of K-12 education. DPI and WTCS coordinate technical preparation programs. The Division of Connecting Education and Work in DWD is statutorily required to plan, coordinate, administer and implement the youth apprenticeship, career counseling center and school-to-work programs funded through the federal School-To-Work Opportunities Act.

The development and implementation of an individual school district's school-to-work program is generally carried out by the school district in cooperation with the local WTCS district. However, DPI, WTCS and DWD provide oversight, technical assistance and coordination activities. The administrators of each agency meet regularly to discuss school-to-work policy and management and make necessary decisions regarding agency coordination. Administrative oversight is provided by DPI's Office of School-to-Work Transition, DWD's Division of Connecting Education and Work and WTCS Board staff.

Under 1995 Wisconsin Act 27, a Council on Workforce Excellence, attached to DWD, was created as an advisory body to school-to-work and other employment and training initiatives. The Council assumed the duties of the former youth apprenticeship Advisory Council. In addition, the Office of Workforce Excellence was converted to the Division of Workforce Excellence.

GOVERNOR

Department of Public Instruction

Reduce funding for school-to-work programs in DPI by \$249,500 GPR and \$629,800 PR annually and transfer 3.45 GPR and 9.55 PR positions to DWD in 1997-98. The incumbent employees holding these positions in DPI that are primarily related to school-to-work programs, as determined by the Secretary of DOA would also be transferred to DWD. Provide that the

persons transferred would retain all employment rights and status they held prior to the transfer and that no transferred employee who had attained permanent status in the classified service would be required to serve a new probationary period. The bill would delete the PR funding and positions from a DPI appropriation for data processing, rather than the appropriation for program operations supported by funds transferred from other state agencies.

Create a continuing, program revenue-service (PR-S) appropriation for Carl Perkins funds transferred from the WTCS Board for the purpose of local aids to school districts for school-to-work programs. Under the bill, this appropriation would inadvertently be included in the calculation of state funding that would count toward two-thirds of partial school revenues. Under SB 77, \$8,931,200 annually of Carl Perkins monies that would have been in the current DPI appropriation for funds from other state agencies would be provided in the new DPI appropriation and \$494,400 annually of monies that would have been provided to DPI under current law would be provided in a new DWD appropriation.

Modify the current school-to-work requirement for school boards to specify that school boards would have to provide access to a school-to-work program approved by DWD, rather than to an education for employment program approved by DPI. Require that DPI must work in cooperation with DWD and WTCS in assisting school boards to comply with this requirement.

Wisconsin Technical College System

Create a continuing appropriation within WTCS for federal funds for applied technology and school-to-work programs. A total of \$21,019,300 annually in federal monies provided under the Carl D. Perkins Act would be transferred from an existing appropriation within WTCS for federal aid, local assistance.

Delete \$65,100 PR and 1.0 PR position annually from WTCS to reflect the transfer of an education consultant position to DWD. Funding for this position is currently provided through DWD under the federal School-to-Work Opportunities Act. On the effective date of the bill, the position and the incumbent employee holding that position would be transferred to DWD. Provide that the employee transferred would retain all employment rights and status that he or she held prior to the transfer and that if the employee had attained permanent status in the classified service prior to the transfer, he or she would not be required to serve a new probationary period.

In addition, provide that one of the purposes of WTCS would be to assist secondary schools in the development and implementation of school-to-work programs, including all of the following:

- a. Coordinating and aligning technical college courses and programs with high school courses and programs.

b. Advocating for curricular links that advance and promote the acquisition of technical college credit by high school juniors and seniors.

c. Assisting in the development of and in providing instruction for, youth apprenticeship programs.

Allow the State WTCS Board, in consultation with DWD, to contract with school boards to provide school districts with school-to-work services.

Department of Workforce Development

Provide \$499,500 GPR and \$494,400 PR and 3.45 GPR, 7.80 PR and 2.75 FED positions annually to DWD. A total of 14.0 positions, 13.0 from DPI and 1.0 from WTCS, and associated funding would be transferred to DWD. A new, continuing program revenue appropriation would be created for funding and positions for the school-to-work program transferred from DPI and WTCS.

DWD would be required to establish a school-to-work program to assist pupils in making the transition from school to work by linking school-based learning and work-based learning, academic education and technical education and secondary education and postsecondary education. The DWD school-to-work program would have to include:

a. A series of programs and initiatives that would provide high school pupils with work-based learning opportunities.

b. The coordination of high school courses with courses offered by the WTCS and UW system for the purpose of providing high school pupils with postsecondary credits.

c. A system of career guidance activities for all public high school pupils in the state.

In administering the school-to-work program, DWD would be required to do the following:

a. Prepare an annual, consolidated plan for the operation of school-to-work programs provided by local school boards. The plan would identify priorities for the statewide school-to-work program and would specify the amount of funding available for school-to-work programs and the allowable uses for the funds.

b. Annually notify school boards, technical college district boards, DPI and other interested educational and employment agencies of the purposes for which school-to-work grants could be awarded.

c. Based on a review of the recommendations of the Governor's Council on Workforce Excellence, approve the school-to-work programs provided by school boards and award grants to school boards providing DWD-approved school-to-work programs. The grants would be paid from a program revenue appropriation that would be created for monies transferred from the WTCS.

d. Based on a review of the recommendations of the Council on Workforce Excellence, approve statewide skill standards for school-to-work programs provided by local school boards.

DWD would also be authorized, based on a review of the recommendations of the Council on Workforce Excellence, to approve an innovative school-to-work program that would be provided by a nonprofit organization for children-at-risk in a county with a population of 500,000 or more (Milwaukee County) to assist those at-risk children in acquiring employability skills and occupational-specific competencies before leaving high school. If the Department approves the program, it would be authorized to award a grant to the nonprofit organization which would provide the program. The grant would have to be used to fund the program for at-risk children. The bill would create a new GPR appropriation and provide \$250,000 annually to fund the program for at-risk children. DWD would be required to establish provisions for operating the grant program, but would not be required to promulgate rules to establish the provisions.

The bill would require the Governor's Council on Workforce Excellence to assist DWD in administering the state school-to-work program. The Council would be required to review and provide recommendations regarding local school-to-work programs and the at-risk program in Milwaukee County. The Council would have to recommend statewide skill standards for school-to-work programs provided by local school boards. The Council would also be required to include an accounting of the status of the state school-to-work program in its annual report to the Governor and Legislature.

DISCUSSION POINTS

1. Currently, state-level school-to-work duties are shared by DPI, WTCS and DWD. DPI focuses on K-12, school-based programs such as technical preparation, vocational education, guidance counseling and curricular standards. WTCS duties are in the area of postsecondary enrollment options, technical preparation and vocational education. DWD concentrates on the work-based components of school-to-work such as career counseling centers and youth apprenticeships. Because all school-to-work programs include an education component and most include a work-based component, it may be desirable to maintain the current law structure which involves the participation of DPI, WTCS and DWD, thereby providing significant input from two educational agencies and one workforce agency, rather than further consolidation in a workforce agency.

2. Alternatively, it may be desirable to support the creation of statewide standards under DWD which strengthen the work-based component of school-to-work. The following items in this paper discuss two options for creating statewide school-to-work standards. The first section deals with DPI and the second section discusses DWD.

Creation of Statewide School-to-Work Standards and Programs

Department of Public Instruction

3. The Department of Public Instruction is the state's designated K-12 education agency and is responsible for administering state school aids; assisting school districts in developing curricula, standards, assessments, school management programs and teacher and staff training; coordinating the transition from secondary to postsecondary education with the state's higher education systems; and administering numerous federal K-12 education programs. The State Superintendent of Public Instruction is constitutionally and statutorily vested with the supervision of primary and secondary public education in Wisconsin.

4. Under SB 77, DWD would be responsible for developing a program for assisting high school pupils in making the transition from school to work, including coordinating high school courses with WTCS and UW system courses, preparing an annual plan for school boards, approving local school board school-to-work programs and statewide skill standards for school-to-work programs provided by local school boards. It could be argued that these duties are closely tied with K-12 pupils, schools, curricula and standards as well as coordination with higher education systems and should be the purview of DPI and the State Superintendent.

5. Some would argue that creation of duties under DWD that could be viewed as relating to K-12 education could pose some constitutional issues similar to those decided under Thompson v. Craney, which stipulated that the State Superintendent must be the highest ranking official overseeing the administration of K-12 education in the state of Wisconsin. In addition, the bill would specifically authorize the Governor's Council on Workforce Excellence and DWD to approve school board programs.

6. Many local school boards develop school-to-work programs that integrate the curricula and skills taught in numerous course subjects and throughout the K-12 grade levels. Because DPI is the state's K-12 education agency, it provides consulting services and technical assistance to school districts that match the approaches taken by local school boards. DPI attempts to integrate school-to-work initiatives throughout its programs. If the Committee wishes to provide statewide oversight of school-to-work programs while maintaining the K-12 duties of DPI, it could maintain the transferred positions and funding within DPI and establish the proposed school-to-work duties within DPI, including a provision that would require the Governor's Council on Workforce Excellence to make recommendations to the State Superintendent regarding the statewide school-to-work program.

Department of Workforce Development

7. DWD has been involved in the school-to-work initiative since most of the current, statewide school-to-work programs were created by 1991 Wisconsin Act 39. The Act required DWD (then DILHR), in cooperation with DPI and the WTCS Board, to develop a youth apprenticeship program and created a 12-member youth apprenticeship council in DWD to coordinate the establishment of the program. The Act required school boards, in cooperation with WTCS district boards, to establish tech-prep programs through which high school pupils could gain advanced standing in WTCS associate degree programs. In addition, the postsecondary enrollment options program was created to allow 11th and 12th grade pupils to earn high school and/or postsecondary credit for certain courses completed at postsecondary institutions.

8. In 1993 Wisconsin Act 16, DWD's Office of Workforce Excellence (now the Division of Connecting Education and Work) was permanently funded to provide oversight for school-to-work programs. The Act also established a career counseling center program to provide youth with access to career education and job training information. In addition, Act 16 provided funds for youth apprenticeship training grants to participating employers and state aid for tech-prep programs.

9. DWD indicates that a state school-to-work plan has already been developed by DWD, DPI and WTCS and submitted to the federal government as a condition of receiving the federal School-To-Work Opportunities Act (STWOA) grant. DWD administers the grant and grant monies are used to fund local school-to-work programs that are developed by local partnerships that include business and labor organizations as well as school and WTCS districts. From this view, it could be argued that DWD should be the lead administrative agency for the school-to-work program.

10. Because the school-to-work programs involve both a work and a school component and involve a partnership of local school districts, WTCS districts, business organizations and labor organizations it may be difficult to argue that the school-to-work duties that are transferred are primarily related to educational programs.

11. It could be argued that transferring positions and funding related to school-to-work activities to DWD would further centralize and consolidate funding and administration of the components of the state's school-to-work program, particularly due to DWD's current responsibilities for the STWOA, youth apprenticeship and career counseling centers.

Transfer of Funding and Positions from DPI and WTCS to DWD

12. Vocational education, as defined under federal law for the Carl Perkins Act, and as coordinated within DPI and WTCS, is intended to provide primary and secondary pupils as

well as postsecondary technical college students with a broad education that will prepare them for higher education, a competitive workforce and community service. Vocational education includes areas such as bilingual, gender equity, family and consumer, agricultural, business and technical education at all grade levels. DPI has specific statutory duties in the area of vocational education, including a requirement that DPI assist school boards and student organizations in specific areas such as agricultural education and technical education. Based on this definition, school-to-work education could be viewed as a subset of vocational education with the specific goal of preparing pupils and students for the workforce by incorporating a work-based learning component and career counseling into their education.

13. Staff from DPI indicate that SB 77 would transfer more positions to DWD than directly work on school-to-work related activities at DPI. In establishing its Office of School-to-Work Transition, DPI integrated educational consultants and perspectives from varying areas of K-12 education, including general vocational education, guidance counseling, special education, high school equivalency and specific school-to-work programs. The Department created a resource team, which any DPI staff member could join, that would provide contacts for school districts and other state agencies in the broad areas included under the new Office. The transfer under the budget draws from this broader group of positions with varying staff responsibilities. However, staff from DWD would argue that the programmatic functions associated with the SB 77 provisions would require a significant number of positions to perform, and that DPI would retain approximately 50% of its existing staff in this general area.

14. An option to address this staffing issue would be to transfer a more limited number of positions, so that DPI would retain more of its positions whose activities are associated with non-school-to-work Carl Perkins related duties, which would not be transferred to DWD. This would be consistent with the current school-to-work duties of DWD, which include youth apprenticeships and career counseling centers, rather than the broader, more school-based duties of vocational education. The alternative would be to consolidate specific school-to-work funding and positions within DWD. To accomplish this, the Committee could transfer \$98,900 GPR and \$169,500 PR in 1997-98 and \$131,900 GPR and \$226,000 PR in 1998-99 and 1.7 GPR and 2.9 PR positions beginning in 1997-98. This would transfer 1.25 positions funded under the federal School-to-Work Opportunities Act for which DWD is the fiscal agent, 1.65 Carl Perkins positions with specific duties in school-to-work and 1.7 GPR positions, including the youth apprenticeship consultant, with specific school-to-work duties. DPI's statutory requirement to provide a consultant in youth apprenticeship could be deleted.

15. In addition to the DPI positions, SB 77 would transfer \$65,100 PR and 1.0 PR education consultant position beginning in 1997-98, from WTCS to DWD. This position is primarily responsible for providing technical assistance to WTCS districts in the area of youth apprenticeship and coordinating WTCS districts' involvement in local school-to-work partnerships and tech-prep councils. The transfer of this position may be appropriate since the funding for the position is provided through STWOA monies transferred from DWD. However, one could

argue that since the position is responsible for assisting technical colleges in implementing school-to-work programs, it should remain at the WTCS Board.

16. If the Committee would wish to make the larger transfer of positions and funding from DPI to DWD proposed in SB 77, in order to provide DWD with this additional staff and resources, it could modify the transfer in order to be consistent with the statutory duties of both DPI and DWD that would not be altered by the bill. These modifications would be as follows:

a. SB 77 would transfer \$81,900 PR annually and 1.0 PR position beginning in 1997-98 which is funded through the federal Job Training and Partnership Act (JTPA). According to federal law, 8% of these JTPA funds must go to the state education agency for education and coordination programs. The Committee could retain this position in DPI in order to meet federal grant requirements.

b. SB 77 would transfer \$45,600 GPR annually and 1.0 GPR position from DPI to DWD that is solely responsible for the support and coordination of the general education diploma/high school equivalency diploma program, but would not transfer the duties of the position. The Committee could retain this position and funding within DPI.

c. The Committee could delete the statutory requirement that DPI provide one full-time educational consultant in apprenticeship education, since this position would be transferred to DWD.

17. Three technical corrections would be needed in order to meet the intentions of the bill: (a) transfer funding from an administrative funds appropriation rather than a data processing appropriation within DPI; (b) delete a reference which would include federal Carl Perkins funding towards the state's commitment of two-thirds funding of school districts; and (c) delete a reference in the school-to-work provisions under DWD which authorizes grants from an administrative funds appropriation.

Children-at-Risk Grant Program

18. Under current law, DPI is responsible for providing grants to school districts for children-at-risk programs for pupils grades five through twelve who are one or more years behind their age group in the number of high school credits attained, or two or more years behind their age group in basic skill levels, and are also one or more of the following: (a) dropouts; (b) habitual truants; (c) parents; or (d) adjudicated delinquents. Under SB 77, DPI would distribute \$3,250,000 GPR annually in grants to eligible school districts. Generally, the Milwaukee Public Schools (MPS) receive approximately 70% of these grants.

19. SB 77 would authorize DWD to award \$250,000 GPR annually to a nonprofit agency in Milwaukee County for a school-to-work program for children-at-risk, which would

assist at-risk high school pupils in acquiring employability skills and occupational-specific competencies before leaving high school. Due to the focus on school-to-work, DWD may be the appropriate agency to administer this children-at-risk program. However, because DPI currently administers a children-at-risk grant program and because the proposed program would focus on high school pupils, this grant could be administered by DPI.

20. Alternatively, because MPS is currently eligible for significant funding for children-at-risk programs, it could be argued that additional funding for this purpose is not needed.

ALTERNATIVES TO BASE

A. Creation of Statewide School-to-Work Standards and Programs

1. Approve the Governor's recommendation.
2. Modify the Governor's proposal to, instead, establish a state-level, school-to-work program within DPI, rather than DWD.
3. Maintain current law.

B. Transfer of Funding and Positions from DPI to DWD

1. Approve the Governor's recommendation, including three technical corrections to transfer funding from the correct appropriation within DPI and delete references which would include federal funding towards the state's commitment of two-thirds funding of partial revenues and authorize grants from an administrative appropriation in DWD.
2. Modify the Governor's proposal, including the three technical modifications, referenced in Alternative 1, as follows: (a) retain in DPI \$81,900 PR annually and 1.0 PR position that is funded through the federal Job Training and Partnership Act; (b) retain in DPI \$45,600 GPR annually and 1.0 GPR position that is solely responsible for the support and coordination of the general education diploma/high school equivalency diploma program; and (c) delete the statutory requirement that DPI provide one full-time educational consultant in apprenticeship education.
3. Modify the Governor's recommendation, including the three technical modifications referenced in Alternative 1, to transfer only the following funding and positions: \$98,900 GPR and \$169,500 PR in 1997-98 and \$131,900 GPR and \$226,000 PR in 1998-99 and 1.7 GPR and 2.9 PR positions beginning in 1997-98.

4. Maintain current law.

C. Transfer of Funding and Positions from WTCS to DWD

1. Approve the Governor's recommendation to transfer \$65,100 PR and 1.0 PR position annually from WTCS to DWD.

2. Maintain current law.

D. Children-at-Risk Grant Program

1. ^{FAIL} Approve the Governor's recommendation to provide DWD \$250,000 GPR annually in order to award a grant to a nonprofit agency in Milwaukee County for a school-to-work program for children-at-risk.

<u>Alternative C1</u>	<u>GPR</u>
1997-99 FUNDING (Change to Base)	\$500,000
[Change to Bill]	\$0]

2. ^{PASS} Provide DPI \$250,000 GPR annually in order to award a grant to a nonprofit agency in Milwaukee County for a school-to-work program for children-at-risk.

<u>Alternative C2</u>	<u>GPR</u>
1997-99 FUNDING (Change to Base)	\$500,000
[Change to Bill]	\$0]

3. Maintain current law.

<u>Alternative C3</u>	<u>GPR</u>
1997-99 FUNDING (Change to Base)	\$0
[Change to Bill]	- \$500,000]

MO# AIH#DI

JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	X	A
COGGS	Y	X	A

BURKE	Y	X	A
DECKER	Y	X	A
GEORGE	Y	X	A
JAUCH	Y	X	A
WINEKE	Y	X	A
SHIBILSKI	Y	X	A
COWLES	Y	N	A
PANZER	Y	N	A

Prepared by: Ruth Hardy and Ron Shanovich

AYE 8 NO 8 ABS

10/15 OK

MO# A14#DZ

JENSEN	X	N	A
OURADA	X	N	A
HARSDORF	X	N	A
ALBERS	X	N	A
GARD	X	N	A
KAUFERT	X	N	A
LINTON	X	N	A
COGGS	X	N	A

/ BURKE	X	N	A
DECKER	X	N	A
GEORGE	X	N	A
JAUCH	X	N	A
WINEKE	X	N	A
2 SHIBILSKI	X	N	A
COWLES	X	N	A
PANZER	X	N	A

AYE 16 NO 0 ABS

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